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# CURRENT INTELLIGENCE WEEKLY SUMMARY



CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

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S U M M A R Y   O F   C O N T E N T S

PART I

OF IMMEDIATE INTEREST

MOSCOW AND PEIPING SUGGEST  
NEGOTIATIONS OUTSIDE UN . . . . . Page 1

While maintaining tension by means of limited military action in the offshore islands area, Moscow and Peiping are expressing receptiveness to the idea of negotiations on the Formosa issue outside the United Nations. [REDACTED]

EARLY COMMUNIST ACTION  
AGAINST ISLANDS LIKELY . . . . . Page 1

Further Chinese Communist military operations against the Nationalist-held offshore islands may come at any time. [REDACTED]

USSR BOOSTS  
MILITARY PREPAREDNESS . . . . . Page 2

The speech of Premier Bulganin before the Supreme Soviet on 9 February and additional data on the Soviet budget provide further evidence that the new leadership intends to strengthen the USSR's military preparedness this year at some cost to longer-range economic growth.

[REDACTED]

FRENCH CABINET  
CRISIS CONTINUES . . . . . Page 4

The French constitutional provision requiring a prospective premier to present his cabinet when he seeks assembly approval has developed into a major stumbling block. Premier-designate Christian Pineau's chances of investiture depend on the abstention of several parliamentary groups which have rejected his bid to participate in the government. [REDACTED]

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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## PART II

NOTES AND COMMENTS

The Threat to Formosa: The Chinese Communists have been making extensive military preparations of the kind which would be required before Peiping could mount a full-scale attack against Formosa and the Pescadores. It is likely to be some time before these preparations will reach a stage sufficient to support such an attack. [REDACTED] . . . . . Page 1 25X1

British Intentions on the Formosa Issue: Britain is making a major diplomatic effort to arrange a settlement of the Formosa question. It evidently believes all parties must come to recognize there can be "a China" and "an entity called Formosa." [REDACTED] Page 2 25X1

Soviet Spokesmen Emphasize Readiness for War: An address by Foreign Minister Molotov to the Supreme Soviet on 8 February highlighted current Kremlin propaganda efforts to reassure Soviet citizens as to the nation's military strength and to prepare them for further sacrifices in the name of "defense." [REDACTED] . . . . . Page 3

Malenkov's Future: The fate of past Soviet leaders who have suffered setbacks similar to Malenkov's suggests that he is scheduled for a further decline from his present relatively prominent position in the government, and perhaps for the role of an "enemy of the people." [REDACTED] . . . . . Page 4 25X1

The USSR and West German Rearmament: Moscow propaganda media and various spokesmen within the Orbit have been announcing a series of modifications in the Soviet stand on German unification designed to create the impression that the Soviet position now approximates that of the West. [REDACTED] . . . . . Page 5 25X1

Soviet Position on Austria: New Tactics, Old Policy: Molotov's speech on 8 February contained an ostensible revision of the Soviet position on Austria but continued to link an Austrian settlement to the German rearmament question. [REDACTED] . . . . . Page 6 25X1

Sino-Vietnamese Railroad Nearly Completed: Peiping has announced that the new railroad linking Hanoi with the main Chinese rail net is complete except for eight miles inside China. [REDACTED] . . . . . Page 7 25X1

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The Communist Issue in Laos: Prince Savang, the most influential figure in Laos, has hinted that the government of Premier Katay may fall as a result of the impatience of some cabinet members over the failure to obtain any favorable results in dealing with the Communist-backed Pathet Lao. [ ] Page 7 25X1

Election Prospects in Cambodia: The king of Cambodia is considering banning the Democratic Party on the ground that it has recently fallen under the control of crypto-Communists and followers of the Republican leader, Son Ngoc Thanh. There is even a possibility that the king may postpone the elections. [ ] Page 8 25X1

Manila Pact Meeting: The Bangkok meeting of the Manila pact powers on 23-25 February appears likely to produce differing views as to the relative priority of military and economic measures to be taken under the treaty. [ ] Page 8

East German Technicians Due in Indonesia: Fifty East German technicians are reported due to arrive in Djakarta in the near future. They will probably devote part of their time to propaganda and covert political activities. [ ] Page 9 25X1

The Afro-Asian Conference: Ceylon's prime minister plans to visit Peiping either before or after the Afro-Asian conference. [ ] Page 9

Japan-Orbit Relations: The upheaval in the Kremlin has made the Japanese apprehensive that tougher Soviet policies will decrease Japan's chances of bargaining successfully for a peace treaty with the USSR. [ ] Page 10

Japanese Election Prospects: While the conservatives are expected to maintain a comfortable majority in the election for the lower house of the Japanese Diet on 27 February, the Socialists and Communists will probably increase their representation. [ ] Page 10 25X1

Prospects for Middle East Defense: Prospects for early signature of the proposed Iraqi-Turkish accord are good, but there is little reason to believe that other Arab states will formally adhere to the pact soon. [ ] Page 11

Hungary Modifies New Course Goals: Current modifications in Hungary's economic plans--less extensive than those announced for the USSR--have been accompanied by rumors of an imminent political shake-up. [ ] Page 12 25X1

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**US Flood Relief Supplies Well Received in Satellites:**

The distribution of American flood relief supplies in the Satellites has been enthusiastically received, the origin of the goods has been widely recognized by the population and relatively little political discrimination in distribution has occurred. [REDACTED]

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**PART III**

**PATTERNS AND PERSPECTIVES**

**ZHUKOV AS DEFENSE MINISTER . . . . . Page 1**

The accession of Marshal Zhukov to the top military post in the USSR brings the influence of military leadership in government to a peak in Soviet history. Zhukov is well qualified to implement the regime's policy of increased military preparedness. At the same time, his prestige in the West as a wartime ally and his moderate public statements qualify him as an instrument of the continued policy of impressing the world with Moscow's professed desire to settle differences by peaceful means. [REDACTED]

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**SINO-SOVIET RELATIONS ON FIFTH ANNIVERSARY OF ALLIANCE . . Page 3**

Peiping faces the Formosa crisis at a high point of Sino-Soviet solidarity, stressed in public statements on the occasion of the fifth anniversary of the Sino-Soviet pact on 14 February. Moscow has given assurances of the support of the Soviet "people" for Communist China's determination to "liberate" Formosa, and has provided material assistance to the Chinese economy and armed forces, but has avoided a concrete military commitment. [REDACTED]

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**YUGOSLAVIA BETWEEN EAST AND WEST . . . . . Page 4**

Orbit "normalization" gestures have become sufficiently numerous in recent months to enable the Yugoslavs to work more directly toward their goal of a firm position independent of either the Western or Eastern bloc. Nevertheless, the Tito regime apparently is willing to continue co-operating with the free world against Soviet threats of aggression. [REDACTED]

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**OBSTACLES TO WEST GERMAN REARMAMENT . . . . . Page 6**

Early West German Bundestag ratification of the Paris accords seems likely, but further domestic problems, both political and financial, remain in the way of rapid rearmament. Prospects are that few, if any, West Germans will be in uniform prior to 1956, and that the arms build-up will be slow. [REDACTED]

**EGYPTIAN REGIME MAY MOVE TOWARD NEUTRALIST POSITION . . . Page 7**

Egyptian prime minister Nasr may feel forced to change his policy of co-operation with the West to one of neutralism [REDACTED]

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**SECRET****CURRENT INTELLIGENCE WEEKLY SUMMARY****17 February 1955****PART I****OF IMMEDIATE INTEREST****MOSCOW AND PEIPING SUGGEST  
CHINA TALKS OUTSIDE THE UN**

While maintaining tension by means of limited military action in the offshore islands area, Moscow and Peiping are expressing receptiveness to the idea of negotiations on the Formosa issue outside the United Nations. They have given no indication, however, that the Chinese Communists will agree to any settlement short of an American withdrawal from the China area.

The Communist partners apparently hope to exploit both tension and talks to promote either of two objectives--a settlement on Communist terms, or a deterioration in the relations of the United States with its major allies and the Asian "neutrals."

The USSR publicized on 12 February the proposal which it had made privately to the British ambassador on 28 January for a 10-power Geneva-type conference to be attended by the Big Four, Communist China

and the Colombo powers. This proposal has had only minor propaganda value for the Communists. It has been generally viewed as unacceptable, as it would give no representation to Nationalist China, one of the two parties to any cease-fire.

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**The Chinese Communists**

[redacted] would welcome efforts to reach a settlement outside the UN. Peiping is said to have insisted, however, that it would not participate in any discussion with Nationalist China or recognize the "two China's" concept in any way.

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British and Indian diplomats are reported to be working for a de facto cease-fire rather than for a formal settlement. (also see Part II, page 3).

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**EARLY COMMUNIST ACTION  
AGAINST ISLANDS LIKELY**

Further Chinese Communist military operations against the Nationalist-held offshore islands may come at any time.

Chinese Communist forces have occupied the Tachen Island group to the north. Peiping possibly intends to make the two main Tachens into a

naval base from which to operate ships to the south. Terrain and supply problems may prevent the Communists, however, from building an air base on the Tachens.

Peiping has pointedly described Nanchishan Island, midway between the Tachens and the Matsus, as the only

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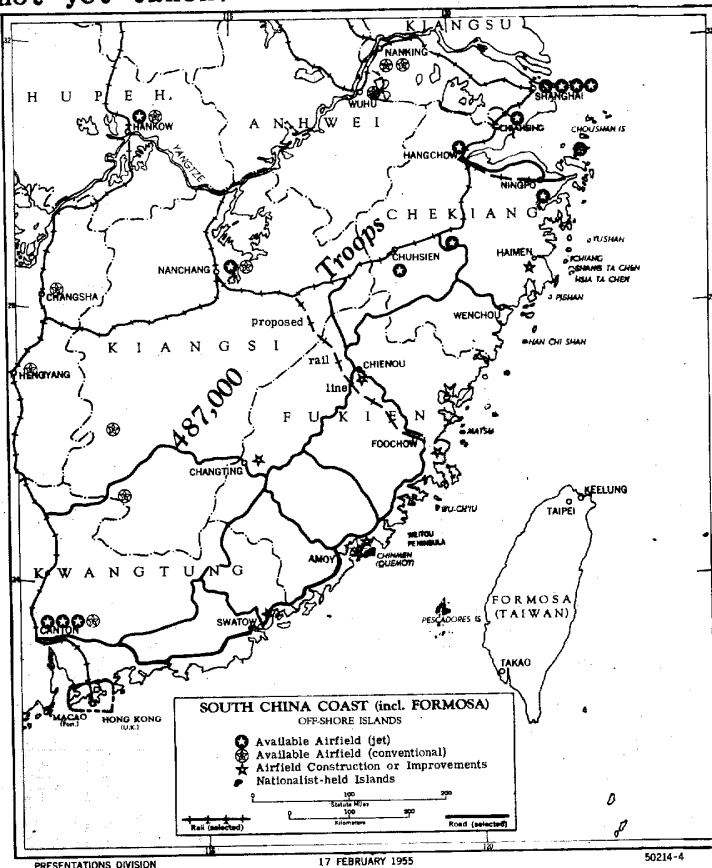


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island off the Chekiang coast not yet taken. This vulner-

Communist troop movements in the Quemoy area continue, and forces there may have been deployed into the Weitou area. Weitou is a peninsula north-east of Quemoy from which Communist artillery could fire on the Quemoy airstrip and on the landing beaches along the southern shore.



A Communist attempt to invade Quemoy, where the Nationalists have 50,000 troops, would have been costly. Further Communist preparations seem necessary before an invasion could be launched, although harassing action may increase sharply in the near future. Such actions could make it extremely difficult to keep the Quemoy supplied.

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able island may be the next target of a Communist attack.

Chiang Kai-shek has stated publicly that he regards Nanchi-shan as one of the Matsu group, and that the United States is pledged to the support of both the Matsu and Quemoy groups.

The Chinese Communists have installed artillery weapons at recently prepared positions north of the Matsus. Peiping is believed likely to undertake probing operations against these islands before attempting to invade them.

#### USSR BOOSTS MILITARY PREPAREDNESS

The 9 February speech of Premier Bulganin before the Supreme Soviet and additional data on the Soviet budget provide further evidence that the new leadership intends to strengthen the USSR's military preparedness this year at some cost to longer-range economic growth.

In his first major address as premier, Bulganin emphasized the need to increase state reserves -- i.e., stockpiles --

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of raw materials, industrial articles, and food. His statement on reserves is the strongest made by a Soviet leader since Stalin's death and specifies that it would be "unforgivable ... to yield to the temptation to solve individual current problems at the expense of state reserves."

Bulganin's words may constitute repudiation of a policy probably pursued while Malenkov was premier under which plans for increasing state reserves were subordinated to "current problems" of the economy.

The text of the law on the 1955 Soviet budget, published on 11 February, shows that total allocations to light industry and internal trade are to drop 24 percent below the 1954 level, rather than 10 percent, as was reported on the basis of earlier information.

On the other hand, allocations to agriculture remain

approximately at the high level of last year, contrary to earlier information which had indicated a 12-percent drop in these allotments. Heavy emphasis on agricultural aspects of the "new course" should therefore continue in 1955, while new allocations to manufactured consumers' goods and internal trade are to diminish substantially.

Earlier information on the Soviet budget for 1955 had already shown that the USSR planned a return in explicit military expenditures to the high 1952-1953 levels. There was also a substantial increase in allocations to heavy industry for 1955 which combined with a slight decrease in capital investment would allow a greater proportion of total economic effort to be devoted to production of military or industrial end items. [REDACTED]

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**FRENCH CABINET  
CRISIS CONTINUES**

The French constitutional revision requiring a prospective premier to present his cabinet when he seeks assembly approval has developed into a major stumbling block.

Premier-designate Christian Pineau's chances of investiture depend on the abstention of several parliamentary groups which have rejected his bid to participate in the government.

The prolonged crisis has increased the prospects for an amendment to the Paris agreements when the council considers them next month. This would require assembly consideration of the amendment, with the possibility of protracted delay.

Pineau intends to seek investiture as premier on 18 February, even though his assured assembly support is less than an absolute majority.

Even if Pineau is approved by only a relative majority, the deputies may be reluctant to overthrow him. Mendes-France's ouster by an absolute majority brings into operation the constitutional provision permitting a subsequent premier to dissolve the assembly if he in turn is overthrown by an absolute majority.

The Socialists, the Radical bloc, and the Popular Re-

publicans who will form the bulk of Pineau's support can muster only 290 votes, even if they all back him. The Socialists' refusal to forego part of their rigid economic and social program may cost Pineau some Radical support. His offer of a truce on the church-school issue seems to have won over the Popular Republicans.

The Gaullists and small Overseas Independent group which is affiliated with the Popular Republicans have rejected Pineau's bid. His chances depend on the possibility that they will not oppose him in the investiture vote.

Pineau strongly supports the Western alliance and would press for favorable action on the Paris agreements by the upper house. He has proposed East-West talks after ratification and has stressed his desire to advance European integration.

He would probably continue Mendes-France's North Africa policy, although the Socialists may favor more autonomy for Tunisia and Morocco than originally envisaged.

France's policy of economic coexistence in Indochina also will probably continue.

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## PART II

## NOTES AND COMMENTS

The Threat to Formosa

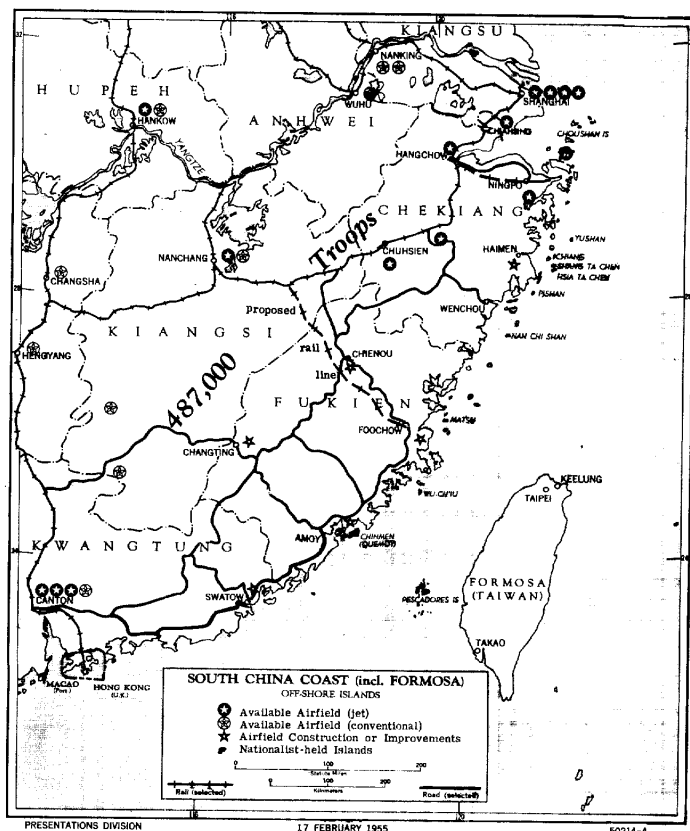
The Chinese Communists have been making extensive military preparations of the kind which would be required before Peiping could mount an attack against Formosa and the Pescadores. It is likely to be some time before these preparations will have reached a stage sufficient to support a full-scale attack.

In the past several months, the Communists have been improving roads in the coastal areas in East China, and the first rail line into Fukien Province is apparently being laid. Development of internal

transportation facilities in these areas will permit the Communists to overcome one of their most serious logistic weaknesses in the coastal provinces--the inability to move large amounts of fuel supplies in a short period of time. Such improvements would allow Peiping to meet the heavy requirements of active air bases in Fukien.

Extensive transportation improvements may require several months--perhaps all of 1955--for completion. Until they are completed, it is doubtful that Peiping would undertake an all-out assault on Formosa.

Since last July, the USSR has made additional submarines available to the Chinese Communists, who now have between five and ten. In addition, two destroyers and two large mine sweepers have been transferred to the Chinese navy. Recent operations near the Tachens suggest that the Communists have also been adding to their fleet of small landing craft, patrol vessels, and torpedo boats. The Chinese Communist navy needs considerably more of the larger ships and landing craft, however, before it can be counted on to give strong support to an attack on Formosa.



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Defensive and offensive air operations in support of an assault on Formosa would depend on activation of air bases in the Fukien area. At present there are no air units in this region, but there is evidence that the Communists began readying some six fields in the vicinity in January. Runways of these fields could be made ready for sustained jet operations within weeks, but work on them appears to be progressing at nowhere near maximum speed. Another air base, suitable for jets, has been readied in Chekiang Province to the north in the past six months, and two others have been reported under construction there.

Peiping's air force appears, however, to be primarily a defensive one at this time. Bomber strength has remained relatively unchanged in the past two years. Currently estimated at about 400 planes, the Chinese bomber force includes about 150 IL-28 twin-jet light bombers and only 10 long-range TU-4's.

Communist propaganda has boasted that Formosa would be taken with a combination of "large-scale bombings" and an internal uprising. For such operations, however, the Chinese would probably require a

larger striking force, and neither Peiping nor Moscow has made any move recently to build up Chinese bomber units.

Peiping has been making purchases in the world market which seem geared to eventual military operations. Large numbers of life jackets are said to have reached the mainland from Hong Kong before last December, and a Chinese purchasing agency in East Berlin is currently attempting to buy antisubmarine nets in Western Europe.

These developments have not yet been accompanied by any significant increase in Chinese ground forces in the area between Shanghai and Canton, the coastal belt from which a Formosa assault would be launched. Eight armies, five artillery divisions and other units, with an estimated strength of 487,000 troops, have been located here for the past several months. Although the Communists have sufficient strength in this area to overwhelm any of the offshore islands, they would undoubtedly bring in additional troops before attempting to invade Formosa.  

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British Intentions on the Formosa Issue

The British government, with strong public backing, is making a major diplomatic effort to arrange a cease-fire in the Formosa Strait and to establish a basis for a negotiated settlement of the Formosa question.

London has not committed itself openly to any specific formula, but holds that all major parties must come to recog-

nize there can be "a China" and "an entity called Formosa."

Prime Minister Churchill and Foreign Secretary Eden have stressed, both publicly and privately, their view that Formosa cannot be allowed to fall into the hands of the Chinese Communists. Eden reiterated this view most recently at the Commonwealth prime ministers'

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conference, which occupied itself exclusively with the Formosa question.

British officials draw a distinction between the legal status of Formosa and the Pescadores on the one hand, which they describe as "uncertain or undetermined," and that of the offshore islands on the other, which they state "undoubtedly" belong to Peiping. At the same time, Eden has warned the Chinese Communists that any attempt to take the offshore islands by force would "give rise to a situation endangering peace."

Britain believes that in order to forestall such a move by Peiping, some sort of ceasefire must be arranged as soon as possible. Eden told the Commonwealth conference that separating the Chinese Nationalists and Communists by "70 miles of water" would "radically reduce" the danger.

The British also regard a cessation of fighting as a prerequisite for creating a favorable atmosphere for negotiation of the entire Formosa problem. For the moment, the British believe public statements endeavoring to fix blame or dealing with ultimate solutions should be avoided.

Although the British are evidently prepared to see the offshore islands transferred peacefully to the Chinese Communists, they continue to distrust Peiping's intentions.

Eden told the Commonwealth prime ministers that fear of the atomic bomb had made the Peiping regime anxious for a settlement at the Geneva conference. Now, however, he said, the Chinese Communists might be more interested in keeping the United States "embroiled over Formosa" in the hope of splitting the Western powers.

Ambassador Aldrich reports that, at the Commonwealth conference, the prime ministers generally showed "sympathetic appreciation" of the American position and "difficulties." Churchill delivered an "impassioned defense" of the United States' peaceful intentions.

According to Canadian external affairs minister Pearson, the Commonwealth prime ministers believed that the USSR's proposals for a Geneva-type conference reflected genuine concern over a situation for which Moscow had no solution. Britain's reply, while insisting that the Chinese Nationalists would have to attend any such meeting, did not close the door to such a conference.

Even Nehru, who has been the target of intensive British diplomacy, has recognized that any party concerned cannot be excluded.

Ambassador Aldrich gained the impression that Nehru preferred any conference to be under the "cloak of the United Nations."

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#### Soviet Spokesmen Emphasize Readiness for War

An address by Foreign Minister Molotov to the Supreme Soviet on 8 February highlighted current Kremlin

official and propaganda efforts to reassure Soviet citizens as to the nation's military strength and to prepare them

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for further sacrifices in the name of "defense."

Subsequent speeches and propaganda commentary, however, neither adopted the vitriolic tone of Molotov's speech nor repeated his statement that the USSR is ahead of the United States in hydrogen weapons.

A speech by Marshal Konev, spokesman for the armed services at the Supreme Soviet session, forcefully repeated claims by Soviet military leaders during the past year that their forces are equipped with, and prepared to use, the most modern weapons.

In interviews with representatives of the Western press, Khrushchev, Zhukov, and Bulganin made much more conciliatory statements than any contained in the speeches intended for Soviet home consumption.

These pointed references by Soviet leaders to the USSR's military preparedness--particularly in the field of nuclear weapons--formed part of an accelerated propaganda effort to impress the world, and more specifically Western Europe, with Soviet retaliatory capabilities. The Kremlin's campaign also sought to publicize Moscow's dis-

armament proposals and "atoms-for-peace" program and to make it politically impossible for the United States to initiate the use of nuclear weapons in any future war.

Soviet propaganda has devoted sustained attention to nuclear subjects since the war-threat theme became prominent in mid-December, and there have been more references to "retaliatory capabilities" than heretofore. This new emphasis appears to be a response to Western moves to arm the German Federal Republic as well as to the NATO decision on nuclear weapons and to a series of statements by Western officials.

Simultaneously, Moscow is contrasting its "atoms-for-peace" program and alleged peaceful intentions with what it pictures as the irresponsibility of those who would base their policy on the use of atomic weapons and position of strength.

Soviet propaganda insists that the United States is to blame for the arms race and that the USSR is forced to prepare for its own defense and the annihilation of the enemy. It claims, however, that the USSR's peaceful policy, supported by the peoples of the whole world, will frustrate the "plans of the atom-maniacs."

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Malenkov's Future

Despite his demotion, Malenkov nominally retains his membership on the powerful party presidium and has been made a deputy chairman of the council of ministers. Since his resignation as premier, he has appeared frequently with the top Soviet leaders. He may well be destined for further

demotions, however, and for the ultimate fate of an "enemy of the people."

The American embassy in Moscow reports rumors from Soviet sources that Malenkov is suffering from either heart trouble or diabetes. While these rumors could arise spon-

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taneously as a result of his resignation, the embassy feels that if they persist it would suggest they are being spread purposely to prepare the way for further action against the former premier.

The recent Supreme Soviet session ratified extensive personnel changes within the Military Collegium of the Supreme Court of the USSR, which conducts important coun-

terrevolutionary trials. These changes, most of which were made in August, may be merely routine. It is possible, however, that they were designed to pave the way for a purge, or that their recent announcement was intended at least to warn supporters of Malenkov in the Soviet hierarchy that opposition could have dangerous consequences.

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#### The USSR and West German Rearmament

Propaganda originating in Moscow and statements by spokesmen in other parts of the Orbit have been announcing a series of modifications in the Soviet position on Germany.

These changes are designed to convince the West--and particularly the Bundes-tag in Bonn--that German unification is now possible on terms which, except for the principle of neutrality, are acceptable to the West.

The Soviet insistence on German neutrality remains firm, and there is no reason to believe that the USSR would actually agree to the Western plan for free elections. But Moscow now has shown a willingness to redesign its election proposals in order to make them superficially more attractive.

The Soviet Union's most recent official pronouncements on Germany were a statement on 15 January which suggested agreement to international supervision of German elections and proposed the establishment of diplomatic ties with Bonn, and a decree of 25 January

ending the state of war with Germany.

Soviet propaganda has answered Western speculation on the meaning of Moscow's proposal of 15 January on international "supervision" of elections by saying that this supervision is equivalent to "control." Moscow commentary also has claimed, without specifying any further concessions, that the Soviet position on German elections now is close to the Eden plan.

Satellite and West European parliamentary delegations meeting in Warsaw stated that elections could be held as envisaged by the Eden plan--under a law guaranteeing all democratic freedoms. The Warsaw conference also said that simultaneous withdrawal of all occupation troops from Germany is feasible, with the Soviet troops in the eastern zone and in Poland returning to Soviet territory.

This suggestion was a significant change from Molotov's proposal at the Berlin conference which did not include all troops, did not men-

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tion forces in Poland, and did not specify a withdrawal to Soviet territory. The Warsaw pro-

posal has been reported by Pravda, but has not been endorsed by Moscow.

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Soviet Position on Austria:  
New Tactics, Old Policy

Moscow's policy in Austria continues to consist essentially -- as it has for the past several years -- of holding the Soviet zone as a hostage in order to make a favorable bargain with the West on Germany. The USSR has professed to agree since the Berlin conference that an Austrian peace treaty can be signed quickly but has insisted that occupation troops must remain in Austria until a German treaty is concluded.

Moscow now has made a move designed to excite immediate Austrian hopes of a solution and eventually to convince the Austrian people that Western insistence on rearming Germany is responsible for the Austrian treaty deadlock. Molotov stated on 8 February that the troops need not be kept in Austria if the four powers could find a solution which would prevent an Anschluss and could reach agreement on "corresponding measures" concerning Germany.

As a Communist paper in Vienna immediately made clear, this simply means an agreement to prevent West German rearmament. While there is a healthy skepticism in various Austrian circles, Molotov's words raised some hope of the possibility of a state treaty or perhaps some new approach to the termination of the occupation of Austria.

Communist propaganda in Vienna continues to charge that the West intends to militarize western Austria and to incorporate it into NATO. Communist members of the legislature have charged that plans exist to recruit 150,000 Austrians for a new German Wehrmacht to form part of NATO forces and that cadres for this purpose are being formed within the Austrian gendarmerie.

Soviet representatives also have warned in the past few months that activities of veterans' organizations and the stationing of American troops in the French zone threaten the integrity and unity of the Austrian state.

These charges are designed to support the Soviet diplomatic position that the danger of German rearmament and an Anschluss forces postponement of an Austrian settlement. They serve also as hints that the USSR might partition Austria if West Germany is rearmed-- a threat which Moscow may find politically useful, even though partition would not in fact be to the Soviet advantage.

Interzonal border controls may be established, however, and Austrian police officials may be subjected to some harassments. Checkpoints have already been set up within the Soviet zone.

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The Austrians are prepared for increased harshness in the Soviet occupation policy, and there are indications that Soviet harassing will not be accepted without resistance.

Anti-Soviet speeches have been made recently by govern-

ment officials, and Chancellor Raab's sharp note to the Soviet high commissioner concerning the abduction of an Austrian civil service employee had the backing of his entire cabinet. [REDACTED]

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Sino-Vietnamese Railroad  
Nearly Completed

Peiping has announced that the new railroad linking Hanoi with the main Chinese rail net is complete, except for eight miles inside China. The 100-mile railroad is expected to be in operation this month.

The line has probably been restored to the Chinese standard gauge of 4' 8.5" in order to facilitate trade with

Communist China. This trade is growing in volume and importance.

Peiping is supplying the equipment, locomotives, rolling stock and technicians to restore and operate the railroad. Following completion of this line, the Chinese Communists are likely to help restore the rest of North Vietnam's 700-mile rail system. [REDACTED]

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The Communist Issue in Laos

Prince Savang, the most influential figure in Laos, has hinted that the government of Premier Katay may fall as a result of the impatience of some cabinet members over the protracted negotiations with the Communist-backed Pathet Lao.

Savang favors stronger action against the Pathet Lao, which holds most areas in the northern provinces of Phong Saly and Sam Neua, but he prefers that no government shake-up occur pending the return of Katay from Thailand the week end of 19-20 February.

Katay, although increasingly disillusioned with the Pathet Lao, has clung to the hope that in the course of negotiations with them he might be able to bring about the defection of some of the second-echelon leaders.

The American minister in Vientiane believes that unless royal authority is re-established in the northern provinces within the next two or three months, Laos will be split in two and a separate Communist government set up in the north. This would make the task of holding the remainder of the country much more difficult. [REDACTED]

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Election Prospects in Cambodia

The king of Cambodia is considering banning the Democratic Party on the ground that it has recently fallen under the control of crypto-Communists and followers of the Republican leader, Son Ngoc Thanh. There is even a possibility that the king, acting on advice from his entourage, will postpone the elections.

Such action runs the risk of alienating the Indian and Polish members of the International Control Commission, who favor holding elections in conformity with the Cambodian government's pledge at Geneva.

It is generally believed that the king, working through political organizations clearly friendly to him, could resoundingly defeat the Democrats at the polls. The validity of this view is indicated by the king's smashing victory in the recent referendum on his policies.

Drastic action by the king against the Democrats on the other hand might encourage moderate elements to believe that the king is not a sincere proponent of representative government and thus diminish his popularity.

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Manila Pact Meeting

The Bangkok meeting of the Manila pact powers on 23-25 February appears likely to produce differing views as to the relative priority of the military and economic measures to be taken under the treaty.

Most of the eight nations--Australia, France, New Zealand, Pakistan, the Philippines, Thailand, the United Kingdom, and the United States--appear in general agreement that a group of military advisers to the council should be established. Differences among the delegates, however, are likely to occur on the group's organization and the nature of its responsibilities.

The Philippines may argue for the establishment of a permanent military organization with broad responsibilities for determining and perhaps carrying out steps to curb Communist subversion and counter aggression.

Thailand, in view of its exposed position in the treaty area, also hopes for more concrete planning and a strong guarantee of military help in the event of hostilities.

Australia and New Zealand are similarly interested in giving the treaty some teeth, perhaps to the extent of earmarking troops for possible use in an emergency.

Pakistan presumably would favor a strong military organization primarily for the additional aid it might expect under that scheme.

Economic discussion probably will receive less prominence, but in this field, too, varying degrees of emphasis are to be expected.

Commonwealth signatories see in a strong economic program both a deterrent to Communist expansion and an

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inducement to other countries in the area to join the organization. They would be anxious, however, that any economic scheme not conflict with the Colombo plan.

The Philippines is interested in promoting a meeting of economic experts after the Bangkok conference. 25X1

#### East German Technicians Due in Indonesia

Fifty East German technicians scheduled to "supervise construction" of a sugar mill in Central Java are reported due to arrive in Djakarta in the near future. They are believed more than are necessary for the contracted project and will probably devote part of their time to propaganda and covert political activities.

Considering the Indonesian government's ever increasing tolerance of Communist activity, the East Germans will

not be unduly obstructed in any activity in addition to their contracted duties.

This is the first instance of such a project being undertaken in Indonesia by an Orbit government. Successful implementation of this contract--in an industry vital to Central Java--will boost the prestige of local Communists as they move into a period of intensive campaigning prior to Indonesia's first general elections. 25X1

#### The Afro-Asian Conference

Ceylon's prime minister Kotelawala apparently has decided to visit Peiping either on his way to or from the Afro-Asian conference.

Kotelawala thinks of himself as a world statesman and intermediary, and told the press in London on 12 February that he felt Chou En-lai is not the "tiger he appears to be on paper."

Chou presumably will urge Kotelawala to come to Peiping

before the conference rather than after, since the Chinese Communists would logically hope to use his visit to gain Ceylonese support in advance for whatever program they present there.

Kotelawala has insisted that Ceylon is interested in Communist China only as a market for rubber, but Kotelawala's self-confidence and love of the limelight might lead him into some kind of political negotiation. 25X1

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Japan-Orbit Relations

The upheaval in the Kremlin has made the Japanese apprehensive that tougher Soviet policies will decrease Japan's chances of bargaining successfully for a peace treaty with the USSR. Moscow notified Tokyo on 16 February that it was ready to start negotiations at "any appropriate place" proposed by the Japanese government. Tokyo had previously suggested New York as the location for the talks.

Prime Minister Hatoyama undoubtedly will interpret this move as justification of his own headlong drive to begin the talks before the election. He is reported to have selected his foreign policy adviser, Arata Sugihara, as chief negotiator. Sugihara

is an advocate of negotiations without prior stipulations.

The Japanese Foreign Ministry is reported to be drafting a Japan-USSR peace treaty, apparently in an effort to head off Hatoyama and block a Soviet unilateral termination of the state of war.

The draft incorporates long-standing Japanese demands that the USSR return the Habomai and Shilotan Islands, permit Japan to join the United Nations, repatriate war prisoners, grant fishing rights in Siberian waters and conclude trade agreements. Hatoyama's attitude, however, militates against Japan's insisting strongly on these demands.

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Japanese Election Prospects

The election for the lower house of the Japanese Diet on 27 February involves three struggles for power: between the conservatives and the left-of-center parties, between the conservative Japan Democrats and the Liberals, and between the Right and Left Socialists.

While the conservatives are expected to maintain a comfortable majority, the Socialists and Communists will probably increase their representation.

The incumbent Japan Democratic Party is showing unexpected popularity, largely because of the enthusiastic public response to Prime Minister Ichiro Hatoyama's policies toward the Orbit. Moreover the traditional

advantage of the government party gives the Democrats an edge over their conservative rivals, the Liberals.

Although the Liberals' grass-roots organization is holding together fairly well, their campaign is meeting with limited enthusiasm. The party also is beset with internal factionalism, has been hurt by political scandals, and suffers from a prevailing anti-Yoshida sentiment. Current indications are that the Democrats will win from 170 to 190 seats with the Liberals garnering from 110 to 140 in the 467-seat lower house.

The present political climate, with its atmosphere favoring neutralism and closer relations with the Orbit, will aid the Socialists and

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Communists. Their gains may be limited, however, by their narrow base of support--labor, intellectuals, and students--which has already been largely exploited. Moreover, Hatoyama has stolen much of their thunder by his stand for normalization of Japan-Orbit relations, plus his adoption of other appealing domestic issues.

The Socialists may increase their present combined strength of 134 up to 150 to 155 seats.

The Japan Communist Party is conducting a vigorous campaign with 99 candidates, including two former well-known underground leaders, but will probably win only about five or six seats.

Alarmed that the leftist parties may gain the one third of the seats which is necessary to block constitutional amendments, numerous prominent conservatives are asserting that this is the conservatives' "last chance" to consolidate their control and eradicate the growing leftist threat by restoring some prewar authoritarianism and discipline.

This view appears to be exaggerated, however, since existing antisubversive laws have never been fully utilized. The conservatives, moreover, have not indicated any intention to resolve the struggle for power within their own ranks which led to the election and is a continuing source of weakness.

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### Prospects for Middle East Defense

Prospects for early signature of the proposed Iraqi-Turkish pact are good. The Baghdad government continues to maintain firm control despite strenuous Egyptian and Saudi Arabian efforts to incite the populace to rebellion. At the same time, Turkey is working hard in the other Arab states to win support for Iraq and is maintaining close contact with Baghdad.

Signing of the treaty is currently snagged on textual differences. Iraq, though ready to sign its own draft immediately, is reluctant to sign the much stronger Turkish draft. The Ankara government is endeavoring to incorporate in the treaty provisions for movement of troops to meet aggression from within or outside the area.

Early signature of the pact is likely to be followed by Iraqi-Turkish efforts to convert it into a multilateral arrangement to which other Arab states, Britain, the United States, Iran and Pakistan would be invited to adhere. Iraq and Britain apparently intend to use this wider pact as a point of departure for a new bilateral agreement to replace the Anglo-Iraqi treaty which expires in 1957. France, whose adherence to the pact is opposed by Iraq, opposed the Iraqi-Turkish agreement and shows considerable resentment over exclusion from preliminary consideration of the proposed wider pact.

Meanwhile, Egyptian and Saudi Arabian hostility to the Iraqi action has not abated

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appreciably. There are press reports that Saudi Arabia paid the Jordanian foreign minister \$700,000 to oppose the Turkish pact. [REDACTED]

Egyptian papers, containing virulent anti-Iraqi propaganda, have been distributed in the coffee houses of Damascus and Beirut. Cairo radio continues virulent attacks.

The Cairo government apparently has not yet determined the policy it will follow once the Iraqi-Turkish accord is signed. Amiable acquiescence in the fait accompli is, however, unlikely. Cairo's policy will probably be one of all-out opposition to any multilateral arrangement originating in Baghdad and Ankara.

Egypt has reportedly been in contact with representatives of the USSR, which has been making strong diplomatic and propaganda efforts to sabotage the Iraqi-Turkish accord. Egyptian

opposition may also have been stimulated during the conversations between Egypt's Prime Minister Nasr and India's Pandit Nehru.

These conversations may serve to re-emphasize for Cairo the sense of special responsibility that it claims for the organization of Middle East defense and thus induce it to carry out its threat to leave the Arab collective pact and organize a new Arab system. These threats have, however, been noticeably soft-pedaled recently.

Egyptian opposition to a new and broader arrangement will pose serious policy problems for the other Arab states -- Lebanon, Syria, Jordan and Libya -- which are caught in the middle of the Iraqi-Egyptian test of strength. At the present time there is little indication that any of these states can be induced to join the Turkish-Iraqi agreement soon. [REDACTED]

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### Hungary Modifies New Course Goals

Rumors of an imminent political shake-up are circulating in Hungary, the only Satellite which has so far publicly modified its economic policies along lines similar to those announced in the USSR.

Premier Nagy, the Hungarian leader most closely associated with the new course policies, has not been mentioned in the Hungarian press since 25 January. It is widely rumored in Budapest that he is about to be replaced, probably by party secretary Mihaly Farkas, who

was defense minister prior to July 1953.

If a scapegoat for the change in economic emphasis in Hungary should be needed, Nagy would be a logical victim. The current modifications appear to be less extensive, however, than those being made in the USSR, and they do not appear significantly to affect the basic new course policy.

The very modest increase in heavy industrial output called for in the 1955 production

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plan appears intended largely to make up a 3-percent decline suffered in heavy industrial production last year. The output of light and food industries is to increase at a lower rate than during 1954. Total investments will again be reduced, and the major emphasis in industrial investments will be on modernizing and re-

placing worn-out equipment rather than on large-scale construction.

Although a few minor restrictions against the peasants have been introduced recently, increased agricultural production and improvement in living standards are still being stressed. [REDACTED]

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US Flood Relief Supplies Well Received in Satellites

The distribution in Hungary and Czechoslovakia of American flood relief supplies--mainly cereal grains, fodder and medicines--which will be virtually completed by the end of February, has elicited expressions of pro-American feelings by peasants in these countries. Hungarian peasants have expressed appreciation even for the feed bags which have been converted into sheets and clothing.

The origin of the flood relief goods is widely recognized by the local populations, despite the fact that the press in each country has published only a single brief acknowledgment of the aid.

The International Red Cross has managed to distribute the supplies to more than 85,000 Hungarians and possibly to as many as 25,000 Czechs, with significantly less discrimination than was observed in the distribution of Orbit flood aid.

Even in East Germany, where the regime used the infestation of some of the American grain as an excuse for destroying all bags with US markings and distributed the aid without crediting the donor, most recipients reportedly know its true origin, largely because of West German radio broadcasts. [REDACTED]

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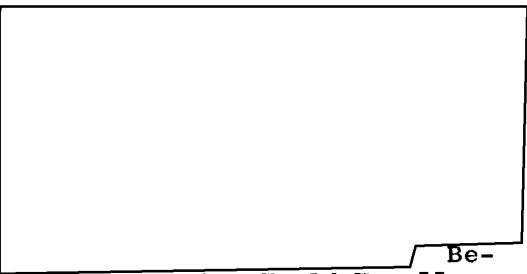
## Part III

PATTERNS AND PERSPECTIVESZHUKOV AS DEFENSE MINISTER

The appointment of Marshal G. K. Zhukov, the Soviet Union's most able and celebrated professional soldier, as minister of defense brings the influence of the military leadership in government to an all-time high in Soviet history.

Accession to the top military post in the USSR is in a sense a personal triumph for Zhukov, the leading popular figure of a decade ago who was relegated to the background by Stalin after the war and who has not been afraid to make enemies in high places.

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Before and during World War II, Zhukov opposed Bulganin and others in his successful effort to curtail the power of political commissars.

Zhukov apparently has no special allegiance to any top political leader. He came into contact with N. S. Khrushchev at the battle of Stalingrad, during the reconquest of the Ukraine, and in the Odessa Military District in 1946. There is no evidence, however, of either personal friendship or differences between the two men.

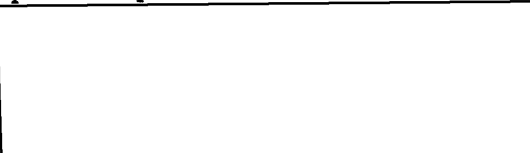
Zhukov's great popularity will increase the people's confidence in the regime. It will also make it difficult to remove him. Zhukov will be better able than was Bulganin to command the personal respect and loyalty of career military personnel, and his leadership will increase

the feeling of cohesiveness among professional officers.

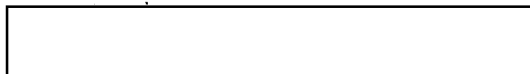
Historically, Russian military leaders have failed to exert political influence as a bloc. Since World War II, however, there has been unusual continuity of military leadership, and present army chiefs have worked together for many years. The roster of Zhukov's wartime subordinates includes Vasilevsky, Sokolovsky and Konev--perhaps the most influential Soviet military officers after Zhukov.

Since shortly before Stalin's death, Zhukov and other military leaders seem to have become increasingly involved in politics. Possibly, they did not enter the political arena of their volition but were drawn into it by the pressure of events. The naming of military "victims" in the doctors' plot announcement in December 1953 may have been an attempt on the part of a political faction to buy military support; and Zhukov's return as a first deputy war minister the day after Stalin's death may have been an emergency measure by the collective leadership in a time of crisis.

By the time of Beria's arrest and conviction, military leaders were taking an active part in political maneuvering. 25X1



Zhukov was made a full member of the party's central committee just after Beria's arrest, and Konev presided over the court which tried Beria in December.



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Gains for the military in the period since Stalin's death have so far been reflected chiefly in increased freedom to manage their own affairs within the framework of existing policy. There has been evidence of improved promotion policies for high-ranking officers, slight decreases in surveillance, the appointment of combat officers to key semipolitical posts, and the apparent return to favor of several World War II leaders who had been removed just after the war. Propaganda glorifying Russian military traditions has been more prevalent during 1954 than in preceding postwar years.

While Zhukov's promotion marks a further enhancement in the position of military leadership in the government, it does not necessarily mean that the armed forces as a bloc will wield decisive power in future political struggles in the USSR. Political officers and counter-intelligence agents probably retain their independent channels of command within the military organization. In his 8 February speech in the Supreme Soviet, Molotov called special attention to the large number of Communists and Komsomols in the service, and these men are subject to party discipline. Zhukov himself was brought under the more rigid discipline of the party leadership by his appointment last summer as a full member of the central committee.

Coupled with the recent increase in the Soviet defense budget and the elevation of Bulganin to the premiership, Zhukov's promotion emphasizes the importance which the Soviet regime now attaches to increasing military preparedness in the Orbit.

Despite a deserved reputation at the end of the war as a "master of the orthodox," Zhukov had exhibited a capacity for innovation during the Manchurian

"incidents" and the early days of struggle against Germany. He is likely to push modernization of forces and the revision of military doctrine based on new methods of warfare.

While his new assignment gives him responsibilities primarily in the area of implementing broad policy decisions set down by the inner ruling circle, he will have considerable influence on these decisions. His position in matters of policy presumably will be based on his military estimates of Orbit capabilities and vulnerabilities. Bulganin, however, will continue to represent the armed services in the party presidium. Zhukov is not a member of this body, and even in the Council of Ministers he will be one of 50 ministers rather than a deputy chairman, as was his predecessor.

Zhukov, like Bulganin and Khrushchev, has been careful in his public statements to appear as a temperate man who has a reasonable approach to East-West problems, suggesting that, despite an impending increase in Orbit military readiness, the USSR wishes to maintain the impression that differences can be settled by negotiation.

In his first Pravda article since the end of World War II--on V-E Day 1954--Zhukov may have been expressing his own personal views when he praised the contribution of the Western allies to the fight against Germany, before launching into a standard Soviet account of their postwar difficulties. In his 8 February interview with Western press representatives, however, he almost certainly knew he would become defense minister the next day. His responses to questions regarding Soviet foreign policy were consistently moderate, he decried "accidents" like the Formosa problem, and he mentioned several times that a new war must be "made impossible."

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SINO-SOVIET RELATIONS ON FIFTH ANNIVERSARY OF ALLIANCE

Communist China faces the Formosa crisis at a high-water mark of Sino-Soviet solidarity. The apparent differences in interests and emphasis between the two governments appear to be nowhere as important as the mutual advantage of their alliance.

The value which Moscow places on convincing the world of the solidarity of its alliance with Peiping was apparent in the first speeches made by the top Soviet leaders after the announcement of Malenkov's resignation. A year marked by Soviet efforts to enhance Chinese prestige was climaxed in speeches by Molotov and Bulganin, who both emphasized the Soviet Union's regard for the Chinese Communists. Molotov pointedly advanced the Chinese People's Republic to the status of joint leadership with the USSR of the "camp of socialism and democracy."

The high-level Soviet delegation--led by Khrushchev and including Bulganin--which went to Peiping last October endorsed China's domestic and international program for the next several years. The joint communiqué issued at the close of that visit claimed agreement on all major questions.

That statement extends and confirms previous indications of the role the USSR plans to play in the development of this program. Moscow evidently intends to continue to make loans available to Peiping for the purchase of essential industrial items and to continue to make deliveries of military equipment.

The Soviet Union also will give strong diplomatic support to Peiping's position in international affairs, including the Chinese Communist claim to all Nationalist-held territory. The USSR apparently intends,

however, to avoid direct involvement in potentially explosive situations in the Far East.

Moscow has made two major loans to Peiping--a five-year credit of \$300,000,000, included in the terms of the 1950 treaty, and \$130,000,000 in the form of a long-term credit, announced in the joint communiqué last October. In these agreements, the USSR contracted for the building of 156 strategic and basic industries for China's industrialization. The agreements were announced after prolonged negotiations, apparently indicating that the Chinese are in a position to bargain for a mutually advantageous economic relationship.

Peiping's ambitious program of socialist industrialization has been made possible by the receipt of technical assistance from the USSR and heavy producers' goods from the whole bloc on credit or in exchange for current exports of foodstuffs and other materials. This deal, through which Peiping expects to become an industrial power comparable to Japan in less than ten years, has been carried out on a strictly businesslike basis.

The program has required austerity on the part of the Chinese people, who have been bluntly warned by their leaders that China must rely on its own capital accumulation for its economic development. Despite the near record flood last year, in which more food crops were destroyed than China had exported in 1953, Peiping is expected to maintain food exports to the USSR, probably at the cost of an enforced lower standard of living among the Chinese.

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Moscow's lack of generosity in the economic field is probably offset by the provision to Communist China of weapons and equipment for the development of a modern fighting force.

The October 1954 communiqué scheduled the withdrawal of Soviet troops from Port Arthur and the return of the installations there to China by 31 May 1955. This agreement has been publicized by Communist propaganda as an example of the new situation in the Far East created by the Korean armistice and the growth of the Chinese defense potential. It has been utilized by both the USSR and the Chinese to show Asia how Moscow has respected China's independence.

Moscow has always appeared reluctant, however, to accompany the build-up of

Chinese armed forces with any reference to specific military commitments to China in the Far East. Peiping has occasionally alluded to the joint obligation of the Sino-Soviet alliance, but Moscow has stressed rather the role of China as the "stabilizing" factor in Asia.

Khrushchev's speech at Peiping in October carefully avoided anything resembling a commitment of military support, promising only the support of the Soviet "people" --not the government--for the "liberation" of Formosa. The Soviet Foreign Ministry statement of 15 December, denouncing the American security pact with Nationalist China, and the most recent pronouncements of the "new team" of Soviet leaders in February followed this same pattern.

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YUGOSLAVIA BETWEEN EAST AND WEST

The Yugoslav regime has taken advantage of Soviet "normalization" gestures, which have become numerous during the last six months, to make greater strides toward its goal of a firm position independent of either the Western or Eastern bloc. Despite vigorous denials that it is trying to form a "third force," there is little doubt that Belgrade aspires to serve as a bridge between East and West.

In addition, Yugoslavia's Communist leaders are convinced that their country has a unique historical role in promoting the liberalization of the Soviet Communist system.

In accepting Orbit offers to normalize diplomatic, trade, transportation and cultural

relations, Belgrade has been motivated by a desire to attain a position from which to encourage developments in the Satellites--and even in Communist China--which could eventually lead to the emergence of regimes independent of Moscow and less doctrinaire and bureaucratic in their interpretation and practice of Communism. To promote such changes, the Yugoslavs claim they must be independent of both Washington and Moscow.

These hopes for liberalization in the Satellites and in the USSR itself are likely to be tempered by the recent change in Soviet leadership, although official Yugoslav reaction to the shift has thus far been noncommittal.

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The Yugoslavs have reacted coolly to indications that the Soviet Union wishes to pursue the "normalization" campaign into the realm of ideology and party relationships. The Tito regime claims to have discouraged formal Soviet offers such as a proposal that Yugoslav and Soviet party representatives confer in order to clear up past differences and lay the groundwork for the resumption of interparty relations.

In this connection Yugoslav officials have cited private Soviet admissions that the USSR had mistreated Yugoslavia in 1948, that there are different ways to Socialism, and that Yugoslavia remains a Socialist country and its leaders, Marxist.

Vice President Kardelj sums up his government's position as a desire for relations with the USSR which would be peaceful and friendly but which would not preclude criticism of the Soviet system.

Yugoslav leaders have insisted to everyone, including Soviet officials, that normalization with the Orbit would not impair their understandings with the West.

They appear to realize that their need for external assistance has been satisfied by the West with minimum interference in Yugoslav affairs. They remain extremely vocal in upholding the right of small nations to develop independently, and this attitude is frequently expressed in strong criticism of Western, particularly American foreign policy. On issues having a fairly direct import on Yugoslav welfare, however, Belgrade's public reaction is relatively close to the Western position.

Taking advantage of its current peaceful relations with East and West, Belgrade has been increasing

its efforts to gain friends and supporters among neutral nations. Tito's recent trip to India and Burma was part of this search for potential adherents to his policy of "positive neutralism." Belgrade defines this policy as noninterference in the internal affairs of other nations, combined with strong efforts to develop peaceful relations between all countries and to dissolve the existing power blocs.

Yugoslavia adheres strongly to the principle that the best means of opposing aggression is collective security free from big-power domination and based on political, economic, and cultural understanding as well as military alliances.

Although Belgrade has sought observer status in the Organization for European Economic Co-operation and has expressed interest in the Council of Europe, it does not wish to become a member of NATO or to establish a formal relationship with that organization.

Similarly, Yugoslav leaders, while they recognize that the Western European Union represents a step toward unity on a broader basis, currently disclaim any desire for formal membership. Apparently, they wish to see more clearly what will emerge in Western Europe before considering such alignments. They have left no doubt, however, that Yugoslavia could not remain neutral in the event of Soviet aggression in Western Europe.

Belgrade is moving more slowly than previously to implement the military features of the Balkan pact; but that alliance--particularly in its cultural and economic aspects--continues to play a major role in Yugoslav policy.

Yugoslavia considers its current policy toward the

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individual countries of Western Europe as illustrative of "peaceful coexistence" between nations with differing political systems. Its relations with Italy have shown surprising advances in economic, political and cultural fields since the Trieste settlement in October, although Belgrade does not consider the time ripe for bilateral military talks or for Italian admission to the Balkan pact. Tito's forthcoming visit to France will undoubtedly be proclaimed as a further illustration of his country's universally co-operative attitude.

A final important element in Belgrade's foreign policy is the desire to establish closer ties with the Socialist International and its members. Yugoslav leaders currently proclaim that almost all the free world is

progressing via "revolutionary socialism" to the same ultimate goal as is Yugoslavia.

Despite the frequent vagueness and contradictions in its foreign policy, Belgrade has shown a willingness to continue co-operation with the free world against Soviet threats of aggression, even while normalizing relations with the Orbit and actively seeking to develop ties with Arab-Asian nations not aligned with the Eastern or Western camp.

This policy of "positive neutralism" is designed primarily to preserve an independent role and, at the same time, to minimize the isolation and exposure implicit in Yugoslavia's position as a Communist nation on the non-Communist side of the fence.

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OBSTACLES TO WEST GERMAN REARMAMENT

Early West German Bundestag ratification of the Paris accords seems likely, but further domestic obstacles, both political and technical, remain in the way of rapid rearmament. Prospects are that few, if any, West Germans will be in uniform prior to 1956, and that the arms build-up will be slow.

The extended French government crisis is causing many Bonn coalition politicians to seek postponement of final Bundestag action on the Paris accords. Chancellor Adenauer still appears determined to avoid such postponement, and the Bundestag will therefore probably vote final approval of the accords during the debate scheduled for 24-26 February. Even if West German

action is postponed, however, Bonn will ratify the treaties whenever ratification appears certain in France.

Bundestag action on defense legislation to implement the accords, however, appears headed for delay. Bonn is prohibited by the occupation powers from initiating such legislation until the London and Paris accords have been ratified by all signatory powers. Even further delay seems likely, since coalition politicians now wish to secure the support of the opposition Social Democratic Party (SPD) for the defense legislation and for possible constitutional changes later.

Coalition leaders hope to gain this SPD support through an informal understanding

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that final enactment of the defense legislation will be deferred until the West makes another serious effort to negotiate German unity with the Soviet Union. For this and other technical reasons, defense legislation will probably not be completed before October, after the summer parliamentary recess.

Several months more will then probably pass before the Defense Ministry assembles its volunteer army cadres. This will require the issuance of executive ordinances which in turn will require the consent of the Bundesrat, a process that normally takes about three months.

Financial difficulties also seem certain to impede the planned arms program. Western military planners almost unanimously agree that the total cost to the Federal Republic for the proposed three-year build-up will be between 50 and 70 billion marks (11.0 to 16.7 billion dollars).

Bundestag deputies and the politically powerful finance minister, Fritz Schaeffer, however, have stated publicly that Bonn's annual defense expenditures will not exceed about 9.0 billion marks (2.14 billion dollars)--a sum considerably under what the country could afford according to NATO criteria.

While the statements of the Bundestag deputies may in part be designed to "sugarcoat" defense costs prior to the ratification debates, Schaeffer appears serious about keeping expenditures near this figure.

Opposition leaders can be counted on to focus domestic attention on the coalition's promises for low defense spending. There is even danger that the government will so prejudice its position on this matter in the next few weeks that it will be politically unable later to call for heavy defense outlays.

Although anticipated defense costs will be comparatively low during the fiscal year beginning in April, heavy defense outlays will be required during the following two years--a period which will also see the 1957 federal elections. The gap between military requirements and announced future defense expenditures is so large that it will be very difficult to close--foreign aid notwithstanding.

In recent weeks Bonn Finance Ministry officials have been so evasive when queried about these matters as to suggest that the West German government is now thinking about stretching out rearmament schedules in order to keep future defense outlays within what it considers politically feasible limits.

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EGYPTIAN REGIME MAY MOVE TOWARD NEUTRALIST POSITION

Egyptian prime minister Nasr may feel forced to change his generally pro-Western policy to one of neutralism and "independence" of the West as a result of Egypt's inability

to prevent Iraq from signing a defense agreement with Turkey. A reported schism in the Revolutionary Command Council between Nasr and Salah Salim is likely to accentuate this trend.

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Egypt, accordingly, may attempt to form a neutralist Arab bloc in an effort to retain its position of leadership in the area.

Egypt's role as leader of the Arabs is threatened by Iraq's initiative in aligning itself with Western defense arrangements. Cairo's inability at the Arab prime ministers' conference to marshal a united Arab front against Iraq's proposed action was a severe blow to Egyptian leadership. Iraqi prime minister Nuri's present desire to extend the agreement with Turkey to include the United States and Britain would present Nasr with a fresh crisis and challenge.

Nasr, who was reported to have been angered by the proposed Iraqi-Turkish pact, has bitterly criticized both the United States and Britain [redacted]

[redacted] for what he considers to be a premature move by the West to obtain a regional defense arrangement. The Nasr regime appears convinced that the Arab populace and particularly the Egyptians will not accept any formal ties with the West at this time.

In an effort to retain its leadership, the regime is accordingly likely to attempt to form an Arab bloc opposed to any alignment with the West. Saudi Arabia probably would encourage and support such an attempt.

Salim, the most likely member of the council to become a serious rival to Nasr, has been the center of intra-council dissension for several months. The policy of Arab solidarity and "independence" of the West, championed by Salim, is widely favored. In view of the political situation in Egypt, Nasr is unlikely to challenge Salim at this time.

In line with this, the Yugoslav press agency reported that among the subjects discussed at the Nasr-Tito meeting of 5 February was the policy of avoiding identification with "blocs." [redacted]

Nasr, frustrated by his failure to prevent Iraq from concluding an agreement outside the Arab League, is likely now to attempt to create an independent bloc of Arabs in an effort to retain Egypt's position of leadership. Indian prime minister Nehru may have offered Nasr encouragement for such a move during his two-day visit to Cairo on 15 February. [redacted]

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